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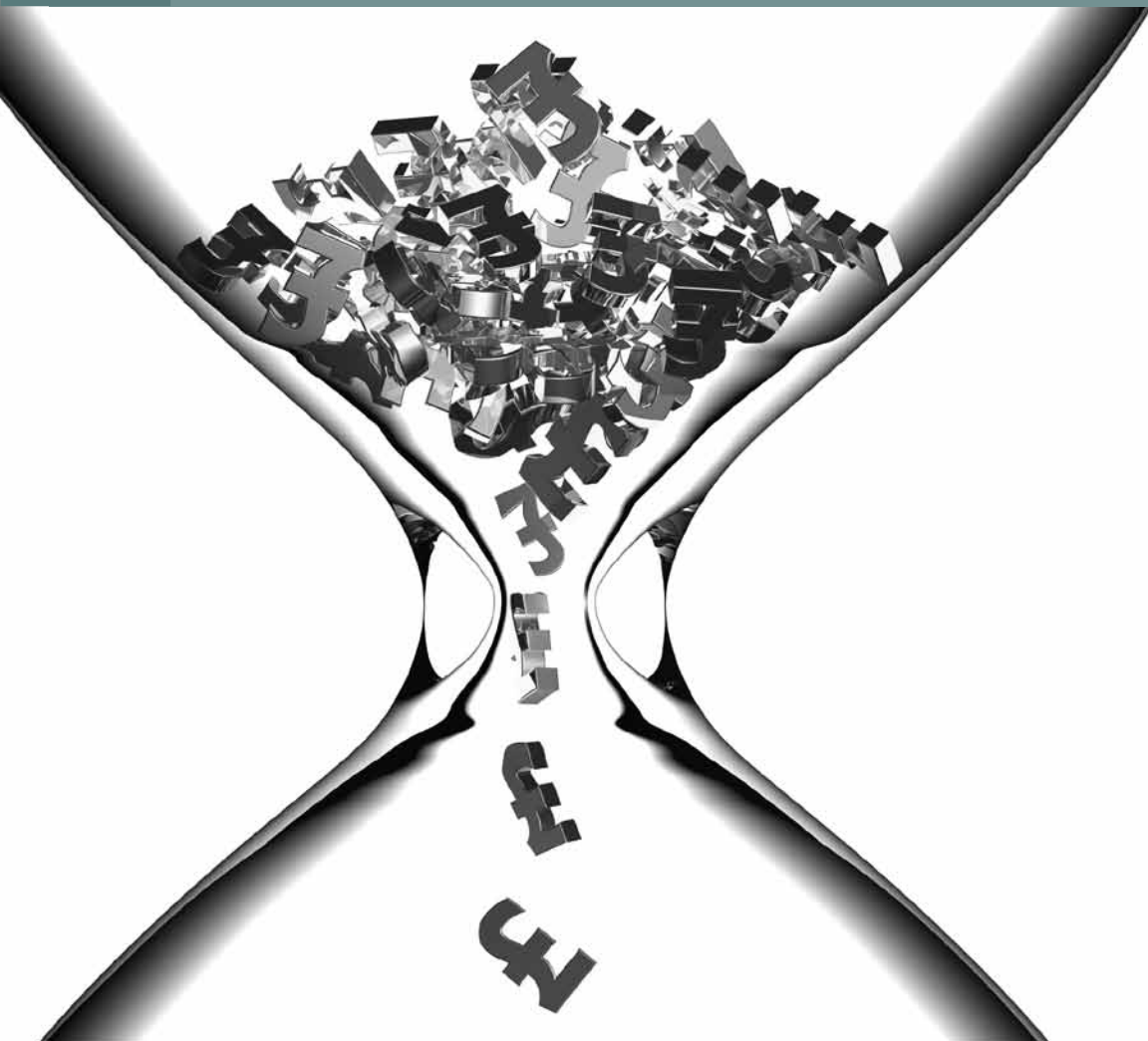
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Financial Inclusion Annual Monitoring Report 2013

Karen Rowlingson and Stephen McKay



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Executive summary

Towards a financially inclusive society

- This report is the first in a series of five annual monitoring reports commissioned by the Friends Provident Foundation to measure changing levels of financial inclusion in Britain from 2013–2017.
- The report presents data on a range of indicators. Where possible, we have shown data from previous years to highlight trends in these indicators. Future reports will show how the picture changes from now until 2017.

The policy context

- Financial inclusion first emerged on the policy scene under the New Labour government from 1997 onwards. In particular, the Financial Inclusion Taskforce (from 2005–2011) placed the issue of financial inclusion high on the public and policy agenda. But the success of policies to tackle financial exclusion is currently at great risk of being reversed as the current economic situation is placing huge pressures on household budgets.

The economic crisis and the squeeze on incomes

- The recent recession has had a major impact on rates of unemployment. At the beginning of 2007, there were about 1.5 million people unemployed. In the space of just over a year another million people had joined the ranks of the unemployed, and unemployment has remained at about 2.5 million ever since.
- The unemployment rate in the first quarter of 2013 was 21 per cent for those aged 16–24.
- One in ten workers are now defined as 'underemployed'.
- In 2012, the real value of workers' wages fell back to 2003 levels, following several years of pay freezes and economic restructuring.
- Over the period of just one year, median income after housing costs in the UK fell from £373 per week in 2009–10 to £359 per week in 2010–11. In 2010–11, someone working for 40 hours in a National Minimum Wage job would have earned £237.30. In 2011, a living wage would give a worker £332 per week in London and £288 in the rest of the UK.
- Means-tested benefits for single people out of work in 2013 gave them only 38 per cent of the income they would need to have an acceptable standard of living. A couple with two children had only 58 per cent of what they would need and a lone parent with one child only 57 per cent (a drop

from 68 per cent in 2008). The percentages for all groups had been declining from 2008 to 2011 but these benefits have, until now, been linked to inflation. The government's recent introduction of a benefit cap of 1 per cent on annual increases will mean that even this basic protection no longer exists for those on the very lowest incomes.

- In order to make ends meet, the majority of the population (53 per cent) are cutting back on their spending. Much of this economizing is on non-essentials such as eating out and luxury food but one in ten manual workers/out of work are having to cut back on basic food items.

How are people feeling about their finances?

- In 2010–11, 12 per cent of households were finding it either very or quite difficult to manage financially and a further 27 per cent were 'just about getting by' (a combined total of 39 per cent). These figures are substantially higher than in the early 2000s, when around 6 per cent of the population said they were finding it quite or very difficult to manage, financially, and around 22 per cent were 'just about getting by' (a combined total of 28 per cent)
- The key groups that were finding it difficult to manage were those on the lowest incomes. At least half of those in the bottom thirty per cent of the income distribution were finding it difficult to manage, financially, or were just about getting by in 2010–11.

Bank accounts

- Overall, fewer people are without access to any kind of bank account in their household than ever before. From 2009–10 to 2010–11, the number without access to any account in their household fell by around 100,000 870,000 to 770,000.
- If we focus solely on whether individual adults have accounts in their own names, then nearly 2 million adults were unbanked in 2010–11.
- In addition to low income being a key factor in lacking a bank account, there was also a strong association with being young. Across all age groups, 0.7% said definitively that they did not hold a bank account. However, that figures rose to around 7% of those aged 18–19, 4% of those aged 20–24, and 3% of those who were 25–29.

Meeting one-off expenses

- People have very little capacity to meet unexpected expenses, even relatively small ones. About one in five of the population said they would have to borrow money if they needed £200 at short notice – either through a formal loan (credit card, overdraft, loan etc) or through an informal loan from family/friends.
- A further one in five either said they would not be able to meet this expense or preferred not to answer the question.
- Only two in five said they would be able to find £200 without cutting back on essentials or dipping into savings.

Savings

- In 2010–11, 41 per cent of the population said they were saving. Those in the top 10 per cent of the income distribution were three times as likely in 2010–11 to be saving than those in the bottom 10 per cent. But 20 per cent of those in the bottom 10 per cent were saving, despite being on such low incomes.
- Half of all savers in the top 10 per cent of the income distribution are saving at least £300 per month and the average (mean) figure is £526. By contrast, half of savers in the bottom half of the income distribution are saving £50 per month.
- In terms of the total amounts saved, just under half (45 per cent) of families had less than £1,500 in savings in 2010–11 and there has been very little change in these figures over the last 3 years. A further 28% had between £1,500 and £20,000 and one in five (20 per cent) had over £20,000.

Borrowing

- It is not easy to find data on borrowing which is reliable and comparable over time. Different datasets collect the data using different definitions and in different ways.
- According to the Wealth and Assets Survey, total household borrowing in 2008–10 reached £943b. The vast majority of this (90 per cent) was borrowing in relation to property (ie mortgages) (up 3.1 per cent on 2006–8). The median amount of property borrowing, for those with any such borrowing was £75,000.
- About 10 per cent of all household borrowing is not related to property and is therefore unsecured credit. The amount of unsecured credit rose by 10.3 per cent on 2006–8. The median amount, for those with any unsecured loans, was £3,700.

- Non-property borrowing is a small proportion of total household borrowing in terms of the amount owed but it is actually more widespread than property loans, with 51 per cent of households having unsecured credit compared with 37 per cent having property loans in 2008–10.
- According to another source, a YouGov poll for BIS, almost two-thirds (64 per cent) of households had some form of unsecured credit and 75 per cent had a loan or credit commitment of some type, including mortgages and secured loans in 2008–9. About one-tenth (11 per cent) of households had four or more different types of unsecured credit commitment.
- Although a quarter (24 per cent) of borrowing households owed less than £1,000 on unsecured credit, more than a quarter (28 per cent) owed in excess of £10,000 in 2008–9. The average amount of credit recorded for this sample was around 20% higher than that recorded for the 2006–8 Wealth and Assets Survey.
- The most common sources of unsecured credit in 2008–9, according to YouGov/BIS, were credit cards (35 per cent of households), bank overdrafts (29 per cent) and personal loans (22 per cent). Non-mainstream sources (doorstep credit, payday loans and pawn-broking) were used by around 3 per cent of the sample.
- Use of unsecured credit was not correlated with household income but those on higher incomes had higher levels of credit overall. Some 38 per cent of households with an annual income of £50,000 or more had unsecured credit of £10,000 or more, compared with 18 per cent of households in the lowest income group in 2008–9.
- Younger people were much more likely than other age groups to borrow from a family member or friend in 2013. Over a quarter of 18–24 year-olds have borrowed from a family member and 12 per cent have borrowed from a friend. The figures for 25–34 year olds are 16 per cent and 6 per cent respectively.
- Student debt is likely to increase substantially in the next few years as 2012–13 was the first year that the cap on tuition fees was raised to £9,000 per year. Data from 2010–11, showed that, of those with student loans prior to the increase in tuition fees, average (mean) debt was £9,174.

Problem debt

- As with data on credit, it is also difficult to find reliable data on 'problem debt' which can be compared over time.
- The proportion of people who found their unsecured credit commitments 'a heavy burden' increased from 16.2 per cent in 2006–8 to 18 per cent in 2008–10
- Almost one-tenth (9 per cent) of households were in 'structural' arrears (that is, more than three months behind with any payments) in 2008–9, according to a YouGov poll for the Business, Innovation and Skills department.
- About one in 12 of all households (8 per cent) were spending more than 30 per cent of their income on repayment of unsecured loans.
- Most people with unsecured credit find it manageable but nearly one in five, 18 per cent of individuals with this form of credit, considered it a 'heavy burden' in 2008–10, up from 16.2% in 2006–8.
- It is difficult to compare sources of data over time but there is some evidence of an increase between 2006 and 2008–9 in the proportion of households in 'structural arrears' (from 7 to 9 per cent of households) and in the proportion of households where repayments on unsecured borrowing are more than 25 per cent of income (from 3 to 8 per cent of households). A new survey of 'over-indebtedness would be extremely helpful to monitor trends since 2008–9.
- In 2008–9, around 7 per cent of households had entered into one of the statutory or informal actions on debt (eg, bankruptcy, IVA, DMP).
- The number of properties taken into possession over time (mortgage (re-)possessions) increased markedly from less than 10,000 in 2003 to a peak just under 50,000 in 2009. But numbers have subsequently fallen to 34,000 in 2012.
- Evictions from rented properties (technically referred to as landlord possession) show a different trend with claims for possession reaching their lowest level around 2010, but increasing since then to around 10,000 in 2013
- According to the 2008–9 YouGov poll for BIS some 14% of respondents who had difficulties keeping up with bills and payments had sought professional debt advice in the preceding six months.

Home contents insurance

- Half of all households in the bottom half of the income distribution lacked home contents insurance in 2009 and data suggests an overall decrease in the proportion of working adults with such insurance between 2008–9 and 2010–11.

Conclusion

- This is the longest and deepest slump in a century and we are already seeing signs, in the available data, of a major impact on people's finances. But the most relevant datasets in this field only provide data up to 2010–11 and so the impact of the recession in 2013 may be even greater.
- Furthermore, the situation looks set to worsen still further in coming years due to recent welfare reforms.
- Unless there is a major improvement in the economy and/or government action to support those struggling to make ends meet, we will see further reductions in financial wellbeing and inclusion in future years.

Introduction: towards a financially-inclusive society

This report is the first in a series of five annual monitoring reports commissioned by the Friends Provident Foundation to measure changing levels of financial inclusion in Britain. Given the current economic situation, which looks set to last for some years, it is vitally important to monitor levels of financial inclusion to highlight areas of concern and feed into policy and practice debates about ways of maintaining, if not increasing, levels of financial inclusion and security.

According to Kempson and Collard¹, a financially inclusive society would be one in which everyone had the ability to:

- manage day-to-day financial transactions (eg, through appropriate bank accounts)
- meet one-off expenses (both predictable expenses through savings, and unpredictable expenses also through savings and/or appropriate credit and insurance products)
- manage a loss of earned income (eg, through savings, including pension savings)
- avoid/reduce problem debt

There are three key components to achieving financial inclusion in this form. The first is for people to have a secure income which meets a minimum standard. The Minimum Income Standards Team² define a minimum income standard as covering 'more than just food, clothes and shelter. It is about having what you need in order to have the opportunities and choices necessary to participate in society.' The second key component to financial inclusion, and the one given greatest attention in debates on this topic, including in this report, is the availability of appropriate and well-regulated financial services, particularly transactional bank accounts, savings accounts, affordable credit and insurance products. Finally, a financially inclusive society would be one with easy access to free and appropriate advice and education, particularly for those with debt problems.

Although pensions are clearly vital for financial security in later life, they have not usually featured in discussions focusing on financial inclusion and this report does not include figures on pension contributions or income. But we do note that, from October 2012 onwards, employers in the UK had a statutory duty to enrol some or all of their workers into a pension scheme that meets or exceeds certain legal standards. They also need to make a minimum contribution for many of these workers. These minimum requirements are intended to increase access to affordable pension products for those on low and middle incomes and so are relevant to the financial inclusion agenda. Our future monitoring reports may therefore return to this issue.

The first chapter of this report briefly reviews the policy context to financial inclusion. The remainder of the report presents data on a range of indicators from a number of sources (see the Appendix for further details). The choice of indicators relates to Kempson and Collard's framework and the three key components to achieving financial inclusion outlined above. Where possible, we have shown data from previous years to consider trends in these indicators. Future reports will show how the picture changes from now until 2017.

¹ Kempson, E and Collard, S (2012) *Developing a vision for financial inclusion*, London: Friends Provident Foundation

² at the Centre for Research into Social Policy at the University of Loughborough, see www.minimumincomestandard.org/index.htm

³ *The Future of Financial Inclusion – A Valedictory Lecture* by Brian Pomeroy, December 2010, Fabian Society

The policy context

Financial inclusion first emerged on the policy scene under the New Labour government from 1997 onwards. Key policy milestones include:

- 1999 – the Social Exclusion Unit set up Policy Action Team 14 to look at financial exclusion.
- 2003 – Basic Bank Accounts were introduced
- 2004 – HM Treasury published 'Promoting Financial Inclusion'
- 2005 – the Financial Inclusion Taskforce was established

The Financial Inclusion Taskforce was set up to advise HM Treasury with a mission to:

- Increase access to banking
- Improve access to affordable credit, savings and insurance
- Improve access to appropriate money advice

Membership of the Taskforce was drawn from industry, the third sector, consumer groups, local government and academia. Its terms of reference were: to track progress on access to banking services; review evidence on bank-use among poorer households; and monitor developments in the way banking services were delivered. The Taskforce was formally wound up, as originally planned, in March 2011. In a review of its work, the Chair of the Taskforce, Brian Pomeroy³, argued that:

- The Taskforce's work programme was a good example of evidence-based policy, with a number of important reports emerging from its work⁴
- Significant funding was provided to particular areas, such as the £120 million Financial Inclusion Fund for 2005–8 and a further £130 million provided for 2008–11.
- The work of the Taskforce had helped to reduce the number of people who were 'unbanked'. It had also helped to increase access to affordable credit.
- The outcomes achieved reflected the strengths and weaknesses of the decision to adopt a voluntarist approach rather than regulatory compulsion.

- More work was needed to better understand the behaviour of low-income groups.
- There was still insufficient transparency on lending as bank lending to low-income groups was still a problem.
- The provision of debt and money advice had been hit by economic recession.
- There had been less progress on take-up of home and life insurance than in other areas.

There is no doubt that the Taskforce placed the issue of financial inclusion high on the public and policy agenda. But the success of policies to reduce financial exclusion is currently at great risk of being reversed as the current economic situation is placing huge pressures on household budgets. The Coalition government retain an interest in this issue but have no overall strategy, and pressures on the public purse have threatened investment in financial inclusion work, particularly in relation to debt advice. Moreover, while the government certainly supports the principle of encouraging savings and self-reliance, one of its first acts was to abandon the introduction of the Saving Gateway, a policy specifically designed to help those on low incomes to save. Financial support for Credit Unions has been promised but this is still unlikely to enable these organizations to provide serious competition to the commercial lenders. With Universal Credit rolling out and social security cuts starting to bite, forecasts from the Institute for Fiscal Studies⁵ suggest that the poorest are now set to be hit the hardest. It is therefore crucial to continue monitoring levels of financial inclusion and this is precisely the aim of this report.

3. The Future of Financial Inclusion – A Valedictory Lecture by Brian Pomeroy, December 2010, Fabian Society

4. See the following website for various reports and details of the Taskforce's work:
www.hm-treasury.gov.uk/fin_consumer_fininclusion_taskforce_research.htm

5. www.ifs.org.uk/publications/6728

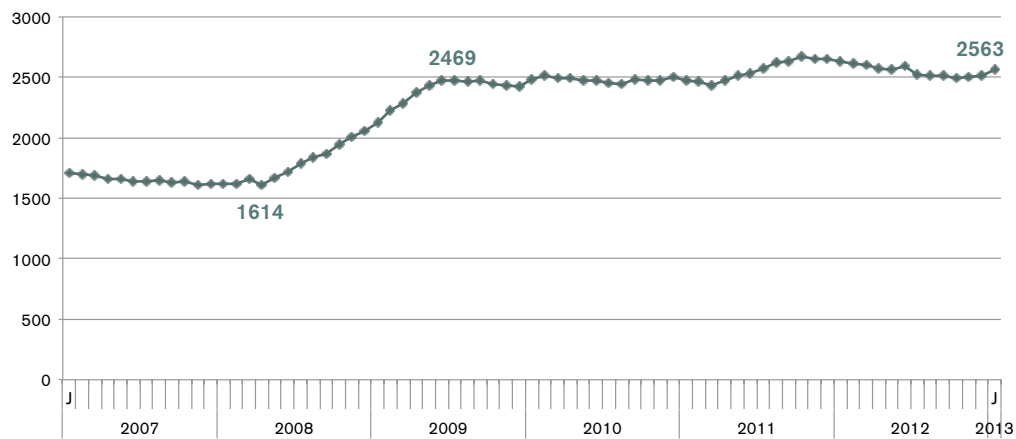
The economic crisis and the squeeze on household budgets

The fundamental cornerstone of financial inclusion is for people to have a sufficient level of income to meet basic needs. The source of income is also important as those in employment generally have better access to appropriate financial products, such as affordable credit, than those out of work. But the Institute for Fiscal Studies has confirmed that the current downturn is the longest and deepest slump in a century⁶. Unemployment, particularly for young people, remains at an extremely high level since the economic crash of 2008. And even those in employment have seen their incomes stagnate if not fall. With prices continuing to

rise, the majority of household budgets have been placed under extreme pressure as this chapter will show.

The recent recession has had a major impact on rates of unemployment. At the beginning of 2007, there were just over 1.5 million people unemployed. In the space of just over a year another million people had joined the ranks of the unemployed and unemployment has remained at about 2.5 million ever since (see figure 1).

Figure 1: Over 2.5 million people unemployed in 2013, Labour Force Survey



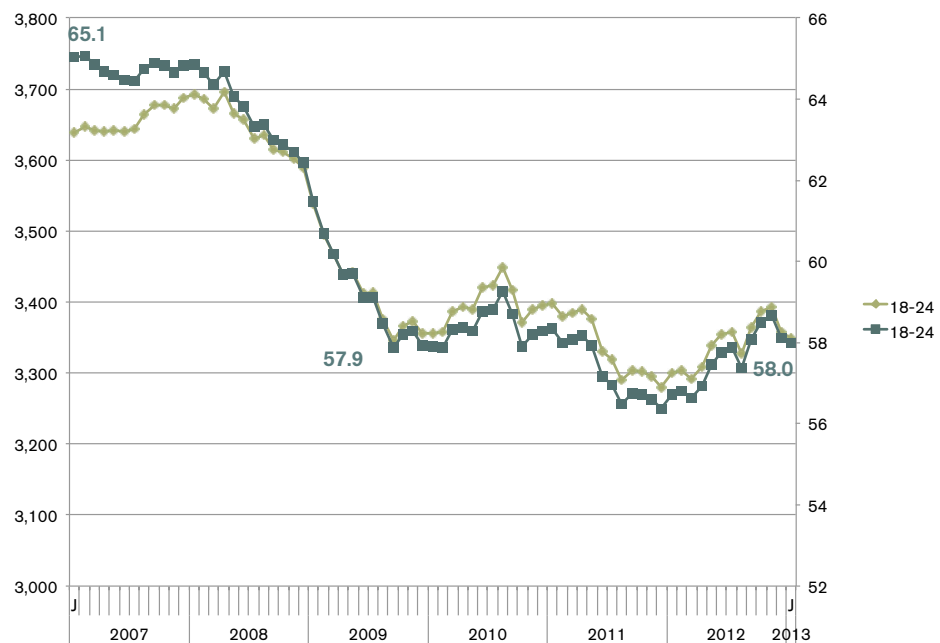
Employment among younger people has been particularly affected (see figure 2). At the end of 2007, 65 per cent of 18–24 year olds in the UK were in employment. By the middle of 2009, this had fallen to 58 per cent and has remained there, with some minor variation, ever since. Of course, some young people

are in education or training but the unemployment rate in the first quarter of 2013 was 21 per cent for those aged 16–24⁷. This means that one young person in every five, about 1 million people in total are out of work but available for, and actively seeking, a job.

⁶. www.ifs.org.uk/publications/6750, www.ifs.org.uk/publications/6751, www.ifs.org.uk/publications/6728

⁷. Youth unemployment statistics – Commons Library Standard Note, www.parliament.uk/briefing-papers/sn05871

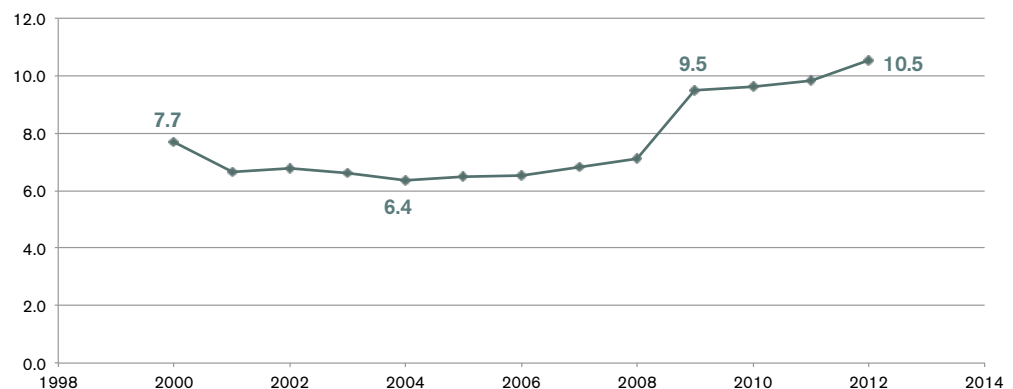
Figure 2: The employment rate among 18–24 year-olds collapsed in 2008, Level (blue) and rate (red) of employment, Labour Force Survey



While unemployment rose and employment fell during the recession, we have also recently witnessed the growth of 'underemployment' among those in work. Underemployed workers are those who are employed but who either wish to work more hours in their current role or who are looking for an additional job or for a

replacement job which offers more hours. They must be able to start working extra hours within the next two weeks to be categorized as 'underemployed'. Figure 3 shows that one in ten workers are now 'underemployed'.

Figure 3: More than one in ten workers are now 'underemployed', Labour Force Survey



As well as suffering from ‘underemployment’ those in work are also experiencing stagnation or even falls in the value of their wages. The Resolution Foundation⁸ provide a series of reports on living standards, particularly for those on low and middle incomes. They highlight the stagnation in wages that has occurred over the last decade. This stagnation began before the recent recession with the wages of ordinary full-time workers barely growing between 2003–2008, despite relatively healthy economic growth⁹.

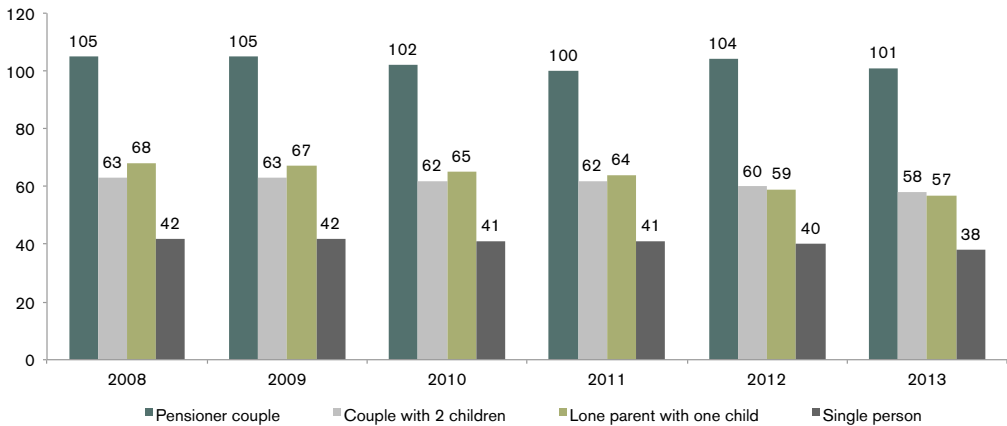
Since 2008, however, real-terms wage growth did not just stagnate but started to fall. Data from the Office for National Statistics¹⁰ also showed that, in 2012, the real value of UK workers wages fell back to 2003 levels, following several years of pay freezes and economic restructuring. On average, workers have seen pay drop by 3% annually between 2010 and 2012. The largest fall in real wages has taken place for male full-time employees in the private sector. For example, male full-time employees resident in

London earned £15.54 per hour on average in 2012, compared with £16.14 in real terms in 2002 – a drop of 4%. This is likely to be due to a combination of pay freezes for people who remain in the same job and changes in the composition of jobs that people do, with some high-paid jobs being cut and more low-paid jobs being created.

The overall effect of changes in the labour market and the tax/benefit system¹¹ is that incomes and earnings have fallen. Over the period of just one year, median income after housing costs in the UK fell from £373 per week in 2009–10 to £359 per week in 2010–11¹².

While incomes and earnings have stagnated or even fallen, living costs have increased. The Minimum Income Standards Team found that families with children have faced particularly high increases in childcare and transport costs in recent years¹³. Single people need to earn at least £16,850 a year before tax in 2013 for a minimum acceptable living standard.

Figure 4: Means-tested, out-of-work benefits (Income Support/Pension Credit) as a percentage of Minimum Income Standards (excluding rent, childcare, council tax)¹⁴



8. see www.resolutionfoundation.org/
 9. Resolution Foundation (2013) Squeezed Britain 2013 <http://squeezedbritain.resolutionfoundation.org/wp-content/uploads/2013/03/Resolution-Foundation-Squeezed-Britain-2013.pdf>
 10. Sarah Levy (2012) Changes in real earnings in the UK and London, 2002 to 2012, Office for National Statistics, www.ons.gov.uk/ons/dcp171766_299377.pdf
 11. See the Institute for Fiscal Studies analyses of the impact of tax and benefit changes: www.ifs.org.uk/budgets/showindex
 12. Seddon, C (2012) Measuring National Well-being – Personal Finance, 2012, Office for National Statistics, www.ons.gov.uk/ons/dcp171766_278355.pdf
 13. Hirsch, D, (2013) A minimum income standard for the UK in 2013, www.jrf.org.uk/sites/files/jrf/income-living-standards-full.pdf
 14. Hirsch, D (2013) A minimum income standard for the UK in 2013, www.jrf.org.uk/sites/files/jrf/mis2001-ebook.pdf and data from previous reports
 15. Seddon, C (2012) Measuring National Well-being – Personal Finance, 2012, Office for National Statistics, www.ons.gov.uk/ons/dcp171766_278355.pdf

Couples with two children need to earn at least £19,400 each. Over the past decade, minimum household budgets have risen by 45 per cent, against the Consumer Price Index's 30 per cent. Social security levels for those out of work fall far short of a minimum income standard for working-age people. Figure 4 shows that safety net benefits for single people in 2013 gave them only 38 per cent of the income they would need to have an acceptable standard of living. A couple with two children had only 58 per cent of what they would need and a lone parent with one child only 57 per cent (a drop from 68 per cent in 2008). Pensioners, due to the relative generosity of Pension Credit, have been able to meet the minimum income standard if they claim all the benefits they are entitled to. The percentages for all groups had been declining from 2008 to 2013 but these benefits have, until now, been linked to inflation. The government's recent introduction of a benefit cap of 1 per cent on annual increases will mean that even this basic protection no longer exists for those on the very lowest incomes.

Again, due to falls in income and rising costs, households have to spend an increasing amount of their income on basic needs. In 2009 in the UK, 17 per cent of the population were living in households where housing costs comprised 40 per cent or more of their disposable income compared to the EU average of 10 per cent of the population¹⁵.

In order to make ends meet, the majority of the population (53 per cent) are cutting back on their spending (see table 1). The most common items to cut back on are non-essentials such as eating out and luxury food. But around one in ten members of the public are cutting back on each of the following: heating; car usage; trips/days out with the family; and the use of lighting. One in twenty are even cutting back on basic food items.

While people from all backgrounds are economizing, those in manual occupations/out of work (C2DE) are most likely to cut back overall and, in particular, on essentials such as heating and food (see figure 5).

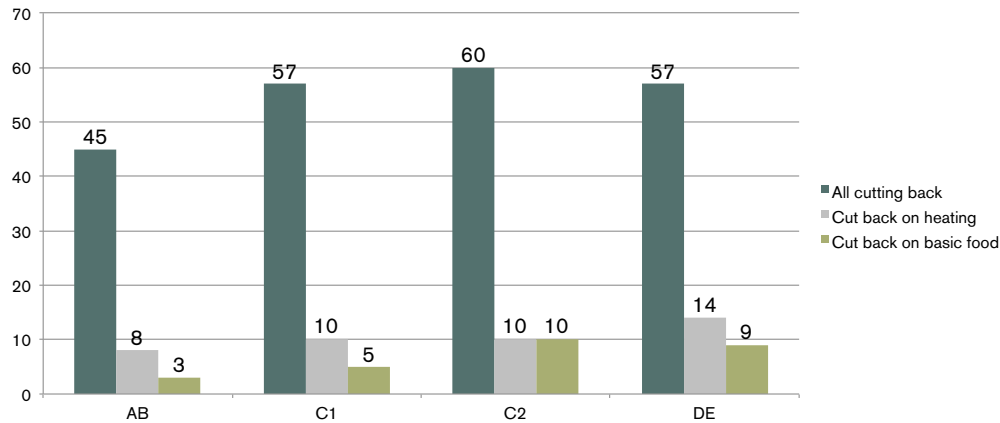
Table 1: Items people in 2013 have cut back on in the past 12 months to save money, Ipsos/MORI survey¹⁶

	Percentage
Eating out	22
Luxury food items	17
Clothes for myself/family	15
A holiday	15
Socialising with friends	13
Heating, to save on gas/electricity/heating oil	11
Car usage	10
Trips/days out for the family	9
Using household utilities (gas/electricity/water)	8
Use of lighting, to save electricity	8
Use of appliances, to save electricity	7
Basic food items	6
Buying a new/upgrading existing car(s)	6
Cable/satellite TV subscriptions	6
Phone/mobile phone bills	5
Charitable contribution	5
Number of baths taken (eg, more showers, sharing baths etc.)	3
All cutting back	54
Not cut back on any of these	35
Prefer not to say	11

¹⁵ Seddon, C (2012) Measuring National Well-being – Personal Finance, 2012, Office for National Statistics, www.ons.gov.uk/ons/dcp171766_278355.pdf

¹⁶ Source: Ipsos/MORI survey, June 2013, base = 967

Figure 5: Items people in 2013 have cut back on in the past 12 months to save money, by social class
Ipsos/MORI survey¹⁷



As well as cutting back on spending, some families are making ends meet by raising extra cash, either through selling general items online (eg, via eBay) or through selling items of gold for cash (see table 2). Of course, families do not need to be in desperate straits to do this and, indeed, it is only possible for people to sell via eBay if they are connected to the internet and have

the skills to do this. However, some people are also turning to more extreme measures to make ends meet, with the number of food banks rising in the last couple of years. Our survey only picked up 1 per cent of the population using food banks in the past 12 months but we will continue to monitor this over the next five years.

Table 2: Activities in last 12 months, Ipsos/MORI 2013 survey¹⁸

	Percentage
Sold general items online for cash (eg, via eBay)	8
Sold items of gold for cash	2
Used a food bank	1

¹⁷. Source: Ipsos/MORI survey, June 2013, base = 967

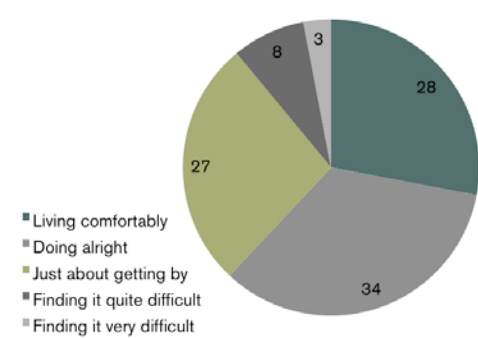
¹⁸. Source: Ipsos/MORI survey, June 2013, base = 967



How are people feeling about their finances?

So far in this report we have looked at objective measures of income and employment and shown increasing pressures on families to manage their finances. How are they feeling about all of this?

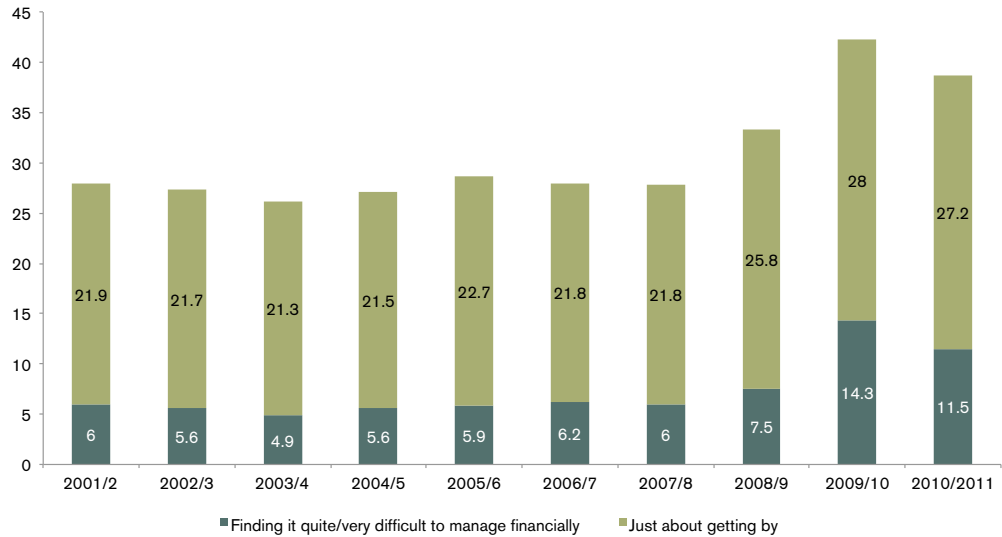
Figure 6: Four in ten households are finding it difficult to manage, financially, or ‘just about getting by’ in 2010–11, Understanding Society



In 2010–11, 12 per cent of households were finding it either very or quite difficult to manage financially and a further 27 per cent were ‘just about getting by’ – a combined total of 39 per cent (see figure 6).

Figure 7 shows how these figures have changed in recent years. During the early 2000s, around 6 per cent of the population said they were finding it quite or very difficult to manage, financially and around 22 per cent were ‘just about getting by’ (a combined total of 28 per cent). The impact of the recession of 2008 was that this proportion grew to a total of 42 per cent in 2009–10. One year on, in 2010–11, households appear to have adjusted slightly to the pressures on their budgets. As we saw in the previous chapter, people are cutting back on luxury foods, eating out, clothing and holidays etc and so a few are managing better. But 39 per cent of the population – two in five households – are still finding it difficult to manage, financially, or are just about getting by.

Figure 7: Increasing numbers of households are finding it difficult to manage, financially, or are ‘just about getting by’, British Household Panel Survey (up to 2008–9)¹⁹, Understanding Society (2010–11)



We also saw, in the previous chapter, that young people are particularly suffering in terms of unemployment. But it is middle aged groups that are particularly feeling the squeeze on their budgets. This is due to the wages stagnation and increased living costs mentioned above and may also be the result

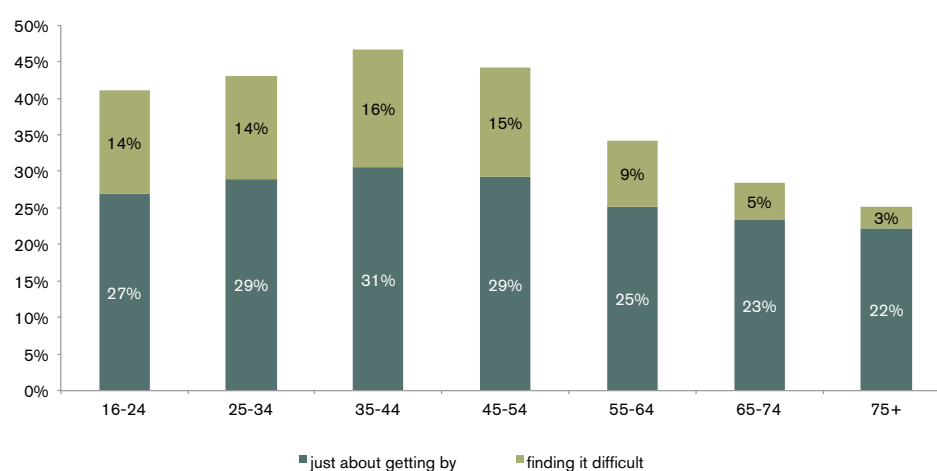
of having to support young people who are either unemployed, underemployed or staying on in education. Nearly half of all 35–44 year olds said that they were finding things difficult or just about getting by (see figure 8). Those over pension age have been relatively protected in terms of spending cuts and

¹⁹ Seddon, C (2012) Measuring National Well-being – Personal Finance, 2012, ONS, www.ons.gov.uk/ons/dcp171766_278355.pdf

express less difficulty managing on their incomes than other age groups. This may also reflect the point made in the previous chapter that means tested support

for pensioners is just about high enough to meet the minimum income standard whereas for other groups it is nowhere near.

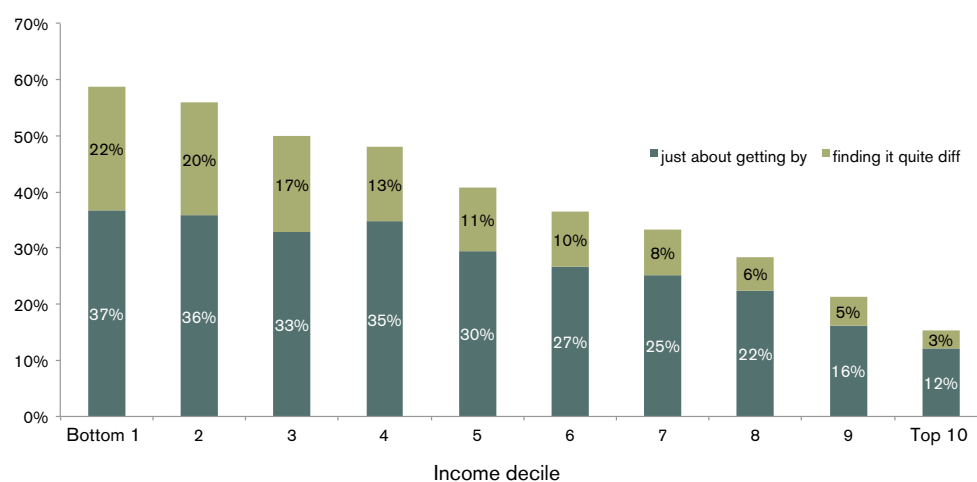
Figure 8: Middle aged groups are particularly feeling the squeeze in 2010–11, Understanding Society data



Of course, the key groups that are finding it difficult to manage are those on the lowest incomes and figure 9 shows that at least half of those in the bottom thirty

per cent of the income distribution are finding it difficult to manage, financially, or are just about getting by in 2010–11.

Figure 9: At least half of those in the bottom thirty per cent of the income distribution are finding it difficult to manage, financially, or are just about getting by in 2010–11, Understanding Society data



Bank accounts

When incomes are not keeping up with price rises it is even more important for people to be able to manage day-to-day financial transactions and this means having access to an appropriate:

- account or equivalent product into which income can be paid, held securely and accessed easily
- method of paying and spreading the cost of household bills and regular commitments
- method of paying for goods and services, including making remote purchases by telephone and on the internet²⁰

The number of adults without access to an account of any kind is relatively small. The Family Resources Survey collects a great deal of detail about accounts,

but the opening question seeks to identify whether any accounts are either currently held, or have been held in the last 12 months. In Table 3 we extend the series of estimates of the unbanked previously produced by the Treasury. The final column shows the number of adults living in households without access to a relevant account. Overall, fewer people are without access to any kind of account than ever before. From 2009–10 to 2010–11, the number without access to any account in their household fell by around 100,000 people from 870,000 to 770,000. This amounts to about 1 per cent of households. Around one in six (16 per cent) of this group were living in the North-West, with a further 14 per cent based in London.

Table 3: Households and adults without access to a current or basic bank account, or savings account, Family Resources Survey^{21, 22}

Year	Adults without current or basic bank account (including 'did not state')	Adults living in households and adults without access to a current or basic bank account, or savings account – (including 'did not state')	Grossed up numbers.
			Adults living in households and adults without access to a current or basic bank account, or savings account – Positively affirmed no account
2010–11	1.97m	1.51m	0.77m
2009–10	2.36m	1.78m	0.87m
2008–09	2.54m	1.85m	0.87m
2007–08	2.71m	1.85m	0.89m
2006–07	3.00m	2.09m	1.01m
2005–06	2.85m	1.97m	1.00m
**			
2002–03	4.38m	2.83m	2.02m

** Figures are not available for 2003–04 and 2004–05. In those years the FRS did not distinguish between basic bank accounts and post office card accounts (which have generally not been counted as a relevant account in past monitoring figures).

²⁰ See Kempson, E and Collard, S (2012) *Developing a vision for financial inclusion*, London: Friends Provident Foundation

²¹ Source: own analysis of Family Resources Survey for 2008–09, 2009–10 and 2010–11. Published HMT figures for 2002–03 (www.hm-treasury.gov.uk/d/stats_briefing_101210.pdf).

²² The last three years of data have been re-released, so estimates vary slightly from those previously published.

However, a number of adults respond that they do not know if they have an account or refuse to answer. If we include those who 'do not state' whether or not they have an account then there are 1.51 million adults living in households without accounts. And if we focus solely on whether adults, themselves, have accounts, then nearly 2 million adults are, personally, unbanked. Of course, this will include people who may be able to make use of their partner's account but they, themselves, have no such account. And some of these adults may be living with older parents or

adult children who have accounts and so their own access to banking facilities may be more limited.

Table 4 shows the trends in the numbers of people 'not stating' whether they have an account or not. This number has declined substantially since 2008–9. The FRS did not previously separate out 'don't knows' from 'refuseds' but we can now see that most of the 'not stated's' are indeed people who refuse to say whether or not they have an account.

Table 4: Do you have now, or have you had at any time in the last 12 months any accounts? This could be in your own name only, or held jointly with someone else. INCLUDE INTERNET/PHONE ACCOUNTS, Family Resources Survey, adult data [anyacc].

Whether any accounts	2008–09	2009–10	2010–11
Yes	44,828,296	45,147,566	45,890,210
No	995,897	1,008,048	871,287
Don't know		271,796	242,451
Refused	1,600,962*	1,215,075	1,019,666

In 2008–09 the missing codes (refused and don't know) were not separate.

The data raise the difficult question of how to treat those not providing a definitive Yes or 'No' response. Previous researchers²³ have recommended treating the missing data group as being banked rather than unbanked, on the basis that their characteristics look closer to those of the banked group. However, that analysis was done prior to the 2009–2010 and subsequent Family Resources Surveys, which recorded whether a person either refused or said that they did not know whether they had any kind of account. To remain consistency with past published numbers, we have shown, above, those providing a definitive 'No' response to the question about accounts and have analysed this at the household level. But further research would be useful to (a) focus more on which individuals have accounts within different kinds of families and households, and (b) consider what kinds of accounts are held, as not all will permit standard transactions.

Our analysis (see table 5) suggests that the adults who 'do not state' whether they have an account or not are more likely to be in the lowest income decile where people have higher rates of being unbanked. Table 5 also shows that among those in the lowest income decile, some three per cent said they did not have such an account, compared with 1 per cent overall. However, a further five per cent of this lowest income group declined to provide an answer, and this was also more frequent among those on lower incomes.

²³ Finney, A and Kempson, E (2009) 'Regression analysis of the unbanked using the 2006–07 Family Resources Survey'. Financial Inclusion Taskforce

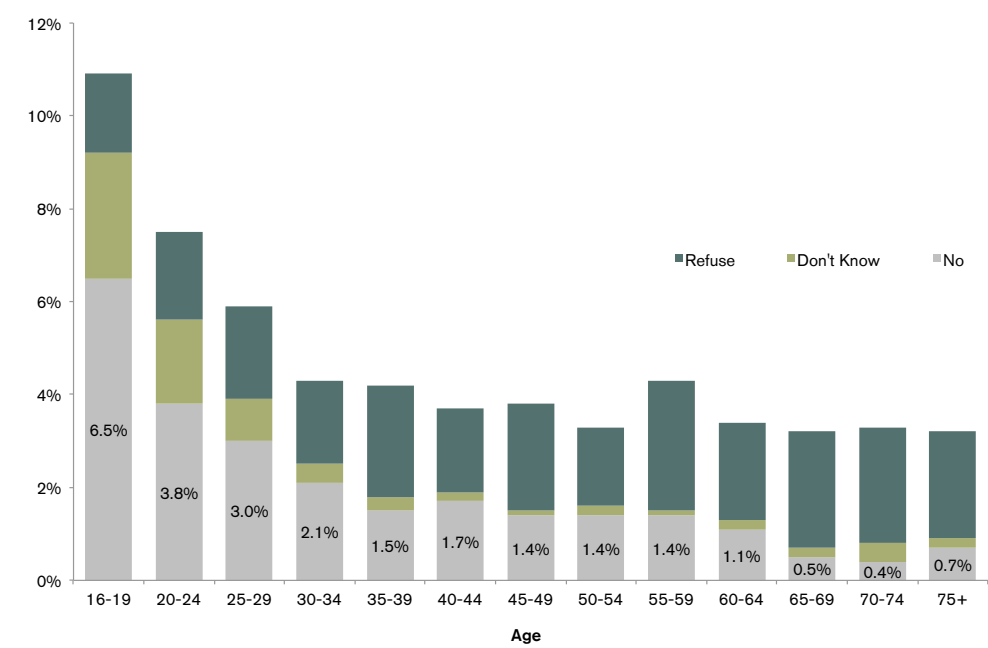
Table 5: Do you have now, or have you had at any time in the last 12 months any accounts? By decile of income after housing costs, FRS 2010–11 adult data [anyacc].

Whether any accounts	Bottom 1	2	3	4	5	6	7	8	9	Top 10	All
Yes	92	94	96	97	97	97	98	97	98	98	97
No	3	1	1	1	1	1	*	*	*	*	1
Don't know	*	*	*	1	*	*	*	*	*	*	*
Refused	5	4	3	2	2	2	2	3	2	2	2

In addition to low income being a key factor in lacking a bank account, there was also a strong association with being young – see Figure 10. Across all age groups, 0.7% said definitively that they did not hold

a bank account. However, that was around 7% of those aged 18–19, 4% of those aged 20–24, and 3% of those who were 25–29. The proportion of those without a bank account declined with age.

Figure 10: Account-holding by age group, Family Resources Survey 2010–11, adult data [anyacc].



Having access to some kind of account does not guarantee financial inclusion. A key issue is whether the account is appropriate in providing transactional services (the ability to pay in money and pay bills etc). Previous research²⁴ found that almost two thirds (64%) of the newly banked²⁵ were paying at least one bill by direct debit. Becoming banked had also facilitated the use of new payment mechanisms and channels. Payment cards were relatively widely used (46%) but use of internet and phone channels was much lower (22% in both cases) and used primarily by the better off. Many of the newly banked, however, some 43 per cent, continued to manage entirely in cash. This was partly due to fear of penalty charges but also a preference for the flexibility provided by (albeit high cost) cash payment mechanisms. The majority of both newly banked and those remaining

unbanked had previously been banked but had fallen out of system. This suggests, again, that the issue is not particularly one of access to bank accounts but access to appropriate banking services. And this was an issue raised by the 2013 report from the Parliamentary Commission on Banking Standards²⁶. The Commission argued that:

'the major banks [must] come to a voluntary agreement on minimum standards for the provision of basic bank accounts, including access to the payments system and money management services, and the free use of the ATM network.'

The Commission suggested that this should be done within 12 months or the government should introduce a new statutory duty.

²⁴ Ellison, A., Whyley, C. and Forster, R. (2010) Realising banking inclusion: The achievements and challenges, Polcis: HM Treasury/Financial Inclusion Taskforce www.hm-treasury.gov.uk/d/realising_banking_inclusion_report.pdf

²⁵ Defined as those who had opened a bank account in the last five years (where this was their first ever account or they had previously fallen out of banking)

²⁶ Report of the Parliamentary Commission on Banking Standards (2013) Changing Banking for Good, Volume 1, HL Paper 27-1, HC 175-1, London: The Stationery Office

Meeting one-off expenses

Another key element of financial inclusion is to be able to meet one-off expenses. People therefore need an appropriate means to smooth income and expenditure, for example through:

- savings accounts that are secure, accessible and protect savings from inflation, if not providing some matched-savings incentives
- affordable credit (eg, through sustainable lower-cost alternatives to commercial sub-prime lenders)
- a safety net of interest-free loans and grants for people on very low incomes

We asked people, in our 2013 Ipsos/MORI survey, what they would do if they had to pay an unexpected expense of £200. Nearly two in five (39 per cent) said that they would be able to pay this with their own money, without difficulty (see table 6). For example, they said they could find the money without having to

dip into their savings or cut back on essentials. A further 8 per cent said they would be able to pay this from their own money but would have to cut back on essentials and 17 per cent said they would have to use their savings. This means that a total of 63 per cent of the population would be able to find this money without having to borrow it. But, of course, this a relatively small sum to find and even this group may struggle to find a larger sum.

About one in five, however, said they would have to borrow money to meet this expense – either through a formal loan (credit card, overdraft, loan etc) or through an informal loan from family/friends.

The remaining one in five either said they would not be able to meet this expense or preferred not to answer the question.

Table 6: Imagine you had to pay an unexpected expense of £200 in one lump sum, within 7 days from today. Which, if any of the following would you do to pay this expense?²⁷

	Percentage
I would pay this with my own money, without dipping into my savings or cutting back on essentials	39
I would pay this with my own money, without dipping into my savings, but I would have to cut back on essentials	8
I would have to dip into my savings	17
I would use a form of credit (eg, credit card, take out a loan or make use of an authorised overdraft facility)	8
I would go overdrawn without authorisation	2
I would get the money from friends or family as gift or loan	9
I would have to sell (a) personal/household item(s) to get the money	1
I would not be able to pay this expense	6
Prefer not to say	11

If we remove those who 'prefer not to say' how they would manage an unexpected expense from our analysis and focus on three categories, we get the following figures:

- 71 per cent can find £200 from their own money/savings;
- 22 per cent would borrow or sell something to find it; and
- 7 per cent would not be able to meet this expense.

These figures vary substantially by age and social class (see figures 11 and 12). Younger people are much more likely to say that they would have to borrow this money (31 per cent of 18–24 year olds and 28 per cent of 25–34 year olds). Middle aged people are much more likely to say they would not be able to find it at all (9 per cent of 35–44 year olds). There is even more variation by social class with 18 per cent of those in the semi- or unskilled occupations saying that they simply would not be able to afford this expense compared with only 1 per cent of those in the professional/senior managerial occupations.

²⁷ Source: Ipsos/MORI survey, June 2013, base = 967

Figure 11: Ability to meet unexpected expense of £200 by age²⁸

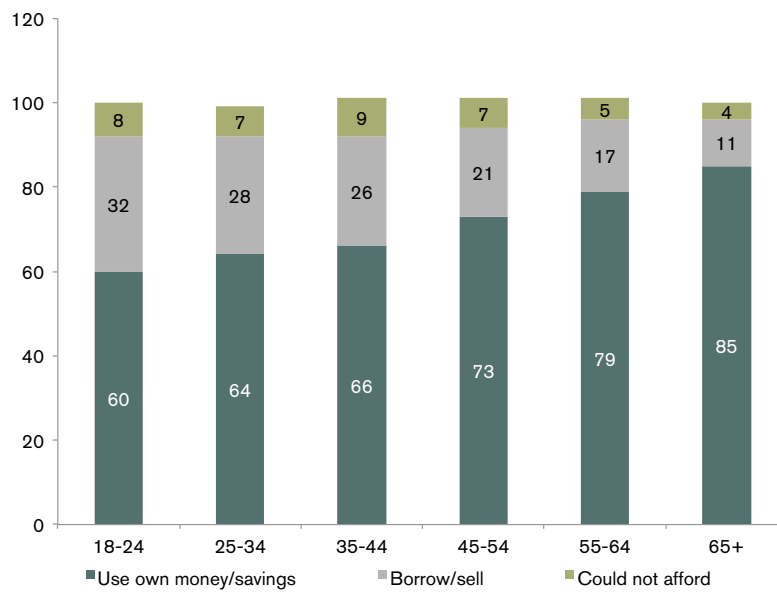
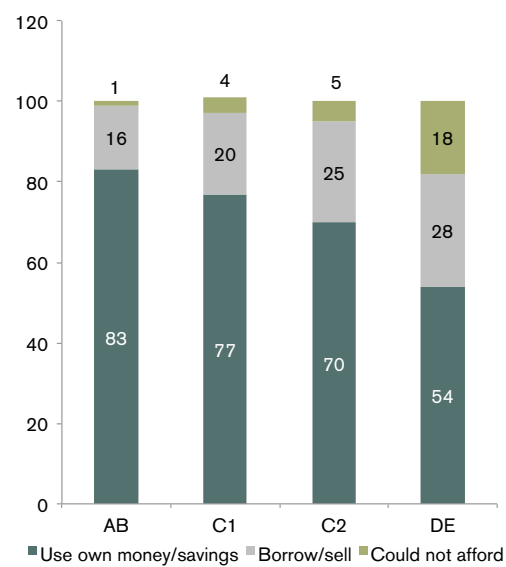


Figure 12: Ability to meet unexpected expense of £200 by social class²⁹



²⁸ Source: Ipsos/MORI survey, June 2013, base = 967

²⁹ Source: Ipsos/MORI survey, June 2013, base = 967

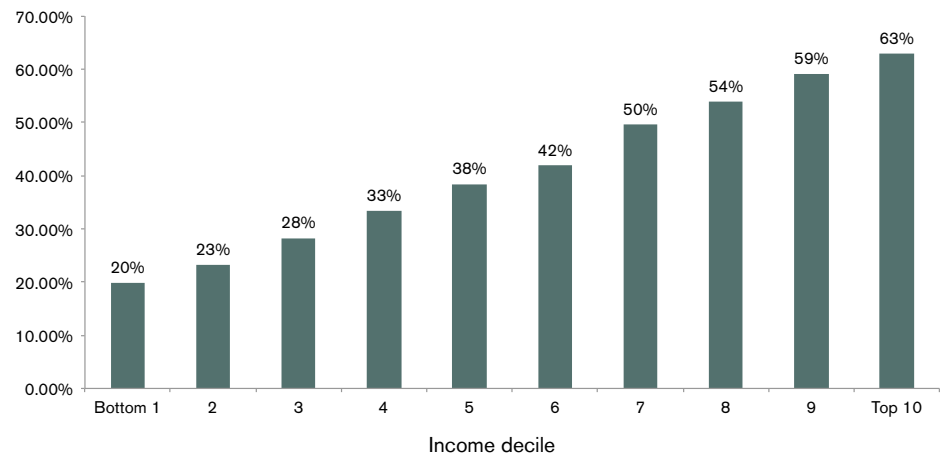
Savings

As we have just seen, savings can be very helpful in meeting one-off expenses (both anticipated and unanticipated expenses). They can also help people to manage a drop in income and avoid problem debt. They are, therefore, a cornerstone of financial inclusion but, as we shall see, levels of saving are low in Britain, particularly among people on low incomes who need them most.

The British Household Panel Survey/Understanding Society survey asks people:
Do you save any amount of your income, for example by putting something away now and then in a bank, building society, or Post Office account, other than to meet regular bills? Please include share purchase schemes, ISA's and Tessa accounts.

In 2010–11, 41 per cent of the population said they were saving in this way. Not surprisingly, perhaps, those in the top 10 per cent of the income distribution were three times as likely in 2010–11 to be saving than those in the bottom 10 per cent (see figure 13). But one in five of those in the bottom 10 per cent were saving, despite being on such low incomes, and we might expect that even more of those in the top 10 per cent (given their far greater capacity to save) might be putting money away on a regular basis.

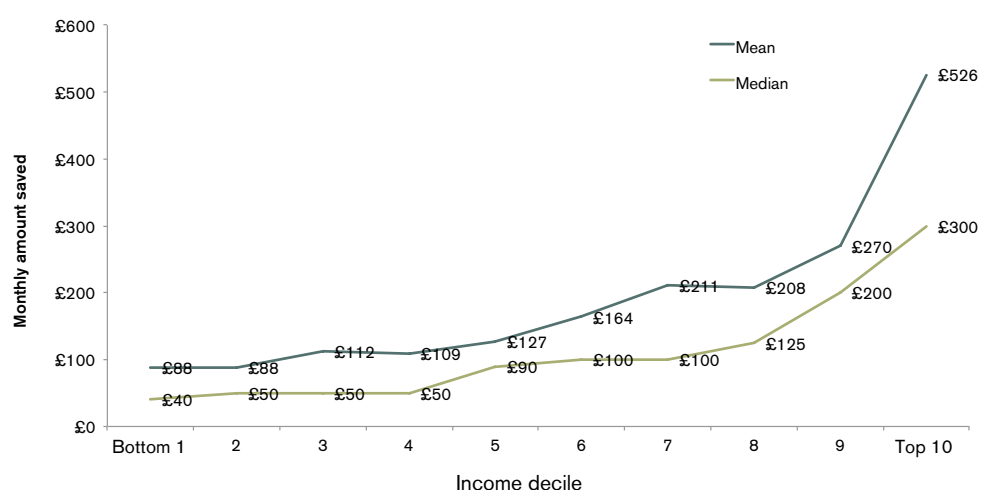
Figure 13: Those in the top 10 per cent of the income distribution are three times as likely to be saving than those in the bottom 10 per cent, Understanding Society, wave 2, 2010–11



Those at the top of the income distribution were not only more likely to be savers but also more likely to save much more each month than those at the bottom (see figure 14). Half of all savers in the top 10 per cent of the income distribution were saving at least £300

per month and the average (mean) figure is £526. By contrast, half of savers in the bottom half of the income distribution were saving £50 per month.

Figure 14: Higher-income savers are saving far more each month than lower-income savers in 2010–11, Understanding Society



In terms of the total amounts saved, the Family Resources survey shows that just under half (45 per cent) of families had less than £1,500 in savings in 2010–11 and there has been very little change in these figures over the last 3 years. A further 28% had between £1,500 and £20,000 and one in five (20 per cent) had over £20,000.

According to the Wealth and Assets Survey, 97.0 per cent of households had 'gross financial wealth' in 2008–10 up 2.1 percentage points from 94.9 per cent in 2006–08. This is the sum of: formal financial assets (not including current accounts in overdraft), plus informal financial assets held by adults, plus financial assets held by children plus endowments for the purpose of mortgage repayment. Between 2006–08 and 2008–10 the mean value of household gross financial wealth increased from £47,800 to £49,200, for those households who had financial wealth. Half of these households had gross financial wealth of £9,400 or more in 2008–10, up from £8,700 in 2006–08. These patterns were also seen in the mean and median values of gross financial wealth if all households are considered (including those with no positive financial assets). There is therefore some evidence that, for those who have savings, the amount saved increased between 2006–8 and 2008–10.

Of course, this was before the main impact of the recession might have been felt but savings often do rise in recessions as people cut back on consumption and borrowing due to concerns about financial security. This recession may be slightly different as interest rates are so low that saving may not be such an attractive prospect. But, again, for those in well-paid job, their mortgages will be relatively low and this may also enable them to save more than they otherwise would be able to do. While the majority of the population may be suffering in this recession, some groups may actually be better off.

The Wealth and Assets Survey also gives details on the kinds of accounts that people hold, and how much is in them. Table 7 shows that the percentage of households with any formal financial asset increased from 96.1 per cent in 2006–8 to 98.1 per cent in 2008–10. For example, half of all households (49.4 per cent) held an Individual Savings Account (ISA) in 2008–10, up from 42.5 per cent in 2006–8.

The amount held in most of these accounts, however, have decreased rather than increased (see table 8). For example, there has been a reduction in the amounts held in savings accounts, ISAs, UK shares, employee shares and share options and overseas shares. Some accounts, particularly those held by more affluent savers, have seen an increase. These include insurance products, fixed term bonds and overseas bonds/gilts.

Table 7: Percentage of households with formal financial asset products, according to Wealth and Assets Survey³⁰

	Percentage	
	2006–8	2008–10
All current accounts	92.3	96.4
Current accounts in credit	84.8	89.6
Savings accounts	61.8	67.4
ISAs	42.5	49.4
National savings certificates and bonds, including premium bonds	23.8	27.4
UK shares	14.9	15.4
Insurance products*	10.5	10.4
Fixed term bonds	8.3	11.8
Employee shares and share options	7.3	7.9
Unit/investment trusts	5.9	6.4
Overseas shares	1.8	2.1
UK bonds/gilts	1.1	1.1
Overseas bonds/gilts	0.1	0.2
Any formal financial asset**	96.1	98.1

*excluding life insurance policies which only pay out on death

**does not include any financial liabilities (eg, current accounts in overdraft)

Table 8: Amounts held in formal financial asset products, excluding households without each type of asset, according to Wealth and Assets Survey³¹

	(Non-zero) median	
	2006–8	2008–10
All current accounts	800	900
Current accounts in credit	1,000	1,000
Savings accounts	3,500	3,000
ISAs	7,500	7,000
National savings certificates and bonds, including premium bonds	300	300
UK shares	4,000	2,000
Insurance products*	15,000	17,000
Fixed term bonds	17,000	20,000
Employee shares and share options	4,000	3,000
Unit/investment trusts	15,000	13,700
Overseas shares	3,000	2,000
UK bonds/gilts	15,000	12,000
Overseas bonds/gilts	6,000	30,000
Overseas bonds/gilts	6,000	30,000

*excluding life insurance policies which only pay out on death

**does not include any financial liabilities (eg, current accounts in overdraft)

The figures above relate to formal financial assets but about 10 per cent of households have informal financial assets. The median amount saved informally,

among those who have any such assets, was £700 in 2008–10, no change on 2006–8.

³⁰ Office for National Statistics (2012) Wealth and Assets Survey, Chapter 3: Financial Wealth 2008–10 www.ons.gov.uk/ons/dcp171776_271544.pdf

³¹ Office for National Statistics (2012) Wealth and Assets Survey, Chapter 3: Financial Wealth 2008–10 www.ons.gov.uk/ons/dcp171776_271544.pdf

Borrowing

Some forms of borrowing/debt may be very positive in enabling people to buy a home or invest in education. Borrowing can also help people to smooth income and expenditure and meet one-off expenses where they do not have savings (see above). However, those on the lowest incomes are often charged the highest rates for borrowing and may also be borrowing to pay for essentials due to low income. This section highlights key data on borrowing, particularly from high-cost lenders.

Before doing so, however, it is important to note that different terms and definitions are used here. Some data sources refer to all 'borrowing' as 'debt' while others refer to credit and still others to 'indebtedness'. Furthermore, how different activities are labeled is open to question. For example, someone may have a credit card but never use it or just use it as a payment mechanism, clearing the full balance every month. Should this count as 'borrowing' or not? And there are also different datasets which ask questions of different samples in different ways leading to different answers. It is therefore important to bear all of this in mind when interpreting the data.

According to the Wealth and Assets Survey, total household borrowing in 2008–10 reached £943b³². The vast majority of this (90 per cent or £848b) was property borrowing (ie mortgages/secured credit)³³ up 3.1 per cent on 2006–8. The median property borrowing, for those with any secured credit was £75,000. About 10 per cent of all household borrowing is non-property borrowing, ie unsecured loans (£95b – up 10.3 per cent on 2006–8). The median amount, for those with any non-property borrowing, was £3,700.

Unsecured credit is therefore a small proportion of total household borrowing in terms of the amount owed but it is actually more widespread than secured credit, with 51 per cent of households having this form of credit compared with 37 per cent having property loans in 2008–10.

Table 9 breaks this down into the different types of borrowing that people have. It shows that credit and charge cards are the most common type (used by 25.4 and 17.4 per cent respectively in 2008–10.

Table 9: Household non-mortgage borrowing: by type of borrowing, Wealth and Assets Survey³⁴

	(Non-zero) median	
	2006–8	2008–10
Formal loans	15.5	18.7
Informal loans	1.1	1.4
Loans from the student loan company	2.7	3.3
Hire purchase	13.8	13.1
Credit and charge cards	25.5	25.4
Overdrafts	17.2	17.4
Store cards and charge accounts	4.9	4.7
Mail order	9.0	8.3
Any non-mortgage borrowing	48.2	49.2

³² www.ons.gov.uk/ons/rel/was/wealth-in-great-britain-wave-2/the-burden-of-property-debt-in-great-britain/sty-household-debt--for-theme-page-.html

³³ Note – property debt in these figures includes liabilities against the household's main residence only

³⁴ Office for National Statistics (2012) Wealth and Assets Survey, Chapter 3: Financial Wealth 2008–10
www.ons.gov.uk/ons/dcp171776_271544.pdf

Table 10 shows that the amount outstanding on unsecured loans (for those with any such borrowing) has increased slightly from £2,800 in 2006–8 to

£3,200 in 2008–10. This increase is largely due to the increase in loans from the student loan company (see below).

Table 10: Amounts outstanding on non-mortgage borrowing: by type of borrowing, Wealth and Assets Survey³⁵

	(Non-zero) median	
	2006–8	2008–10
Formal loans	4,500	4,600
Informal loans	1,500	1,300
Loans from the student loan company	8,000	8,500
Hire purchase	2,600	2,400
Credit and charge cards	1,500	1,600
Overdrafts	500	500
Store cards and charge accounts	200	200
Mail order	100	200
Any non-mortgage borrowing	2,800	3,200

The Wealth and Assets Survey is a useful source of data on credit use but other sources provide rather different estimates. For example, the Department of Business Innovation and Skills (BIS) published a report on over-indebtedness in Britain³⁶ based on data from the YouGov DebtTrack survey, a series of on-line surveys carried out between July 2008 and July 2009. The report explored the extent of consumer indebtedness and the use of unsecured credit in Britain. The most common sources of unsecured credit in the survey were: credit cards (35 per cent of households); bank overdrafts (29 per cent); and personal loans (22 per cent). Non-mainstream sources (doorstep credit, payday loans and pawn-broking) were used by around 3 per cent of the sample.

Almost two-thirds (64 per cent) of households had some form of unsecured credit and 75 per cent had a

loan or credit commitment of some type, including mortgages and secured loans. About one-tenth (11 per cent) of households had four or more different types of unsecured credit commitment. Although a quarter (24 per cent) of borrowing households owed less than £1,000 on unsecured credit, more than a quarter (28 per cent) owed in excess of £10,000. The average amount of borrowing recorded for this 2008–9 sample was around 20% higher than that recorded for the 2006–8 Wealth and Assets Survey. This could be due to differences in methodology and/or to a real increase in borrowing. And, indeed, the BIS/Yougov credit commitments indicator shows a clear increase between 2002 and 2006 in the proportion of households with four or more unsecured credit commitments (from 7 per cent to 11 per cent) and this is consistent with macroeconomic data on increasing credit use over this period.

³⁵ Office for National Statistics (2012) Wealth and Assets Survey, Chapter 3: Financial Wealth 2008–10 www.ons.gov.uk/ons/dcp171776_271544.pdf

³⁶ BIS (2010) Over-indebtedness in Britain: second follow-up report, www.bis.gov.uk/assets/BISCore/consumer-issues/docs/10-830-over-indebtedness-second-report.pdf

Use of unsecured credit was not correlated with household income in the BIS/YouGov survey but those on higher incomes had higher levels of debt overall. Some 38 per cent of households with an annual income of £50,000 or more had unsecured debts of £10,000 or more, compared with 18 per cent of households in the lowest income group. Levels of debt were also high for households with zero savings (36 per cent owed £10,000 or more). As we might expect, debt-to-income ratios were associated with household income. Some 42 per cent of low-income households with unsecured credit had a debt-to-income ratio of 60 per cent or more, compared with 19 per cent of the population overall.

Mainstream loans and credit or store cards were much more common in higher income households. Lower-income households were much more likely than other households to use non-mainstream credit such as Payday loans, doorstep credit, the Social Fund and Credit Union loans. Our Ipsos/MORI survey asked about borrowing from such sources and found that 1 per cent of the public had borrowed from a Payday lender and 1 per cent from doorstep lenders. Given margins of error around survey statistics, we must be cautious about generalising from these statistics but these forms of credit are more likely to be used by those on lower incomes and are extremely expensive. The Office of Fair Trading referred the payday lending industry to the Competition Commission in June 2013³⁷ after finding widespread examples of poor practice in the industry, linked to a lack of competition.

Credit unions and Community Development Financial Institutions could provide a more affordable alternative and provide services to help address the underlying needs of applicants to the new local welfare schemes but would require significantly greater scale to begin to address demand. One estimate suggests they would need to expand 4.5 times their current size to lend approximately £2 billion per year to meet current

levels of demand³⁸. There is therefore great potential in joining up various government initiatives to develop the capacity of credit unions and support Universal Credit claimants to ensure that third sector financial providers are fully engaged in the delivery of local welfare schemes.

The Social Fund provides grants and interest-free loans to those on means-tested benefits in certain situations. However, this system is being fundamentally reformed as Community Care Grants (CCGs) and Crisis Loans will be replaced with locally based support^{39, 40}. The Budgeting Loan scheme will stay in place until the full rollout of Universal Credit to help those still receiving the current income-related benefits. The programme budget has been allocated to the devolved administrations in Scotland and Wales, and to upper-tier local authorities in England. Total expenditure on CCGs and Crisis Loans is currently falling at a time when need is increasing:

- 2010–11 actual – £293.9 million
- 2011–2012 actual – £215.3 million
- 2012–2013 allocation – £178 million

A rather different form of borrowing which is likely to increase substantially in the next few years is student debt. The cap on tuition fees was raised to £9,000 per year in 2012–2013 but data from 2010–11 already showed that, of those with student loans prior to the increase in tuition fees, average (mean) debt was £9,174.

This report has concentrated so far on formal lending but families and friends often help each other when they are in need. Younger people, in particular, were likely to borrow from a family member or friend in 2013 (see figure 15). Over a quarter of 18–24 year-olds have borrowed from a family member and 12 per cent have borrowed from a friend. The figures for 25–34 year olds are 16 per cent and 6 per cent respectively.

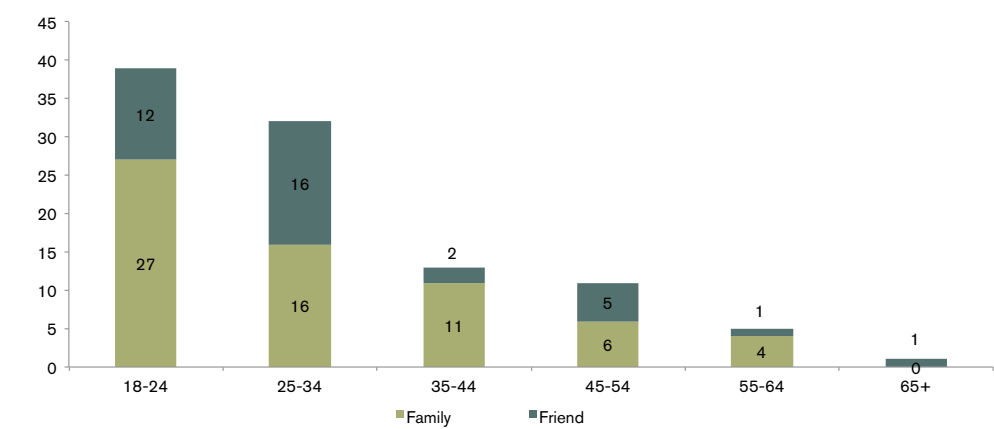
³⁷ Office of Fair Trading (2013) OFT refers payday lending industry to Competition Commission www.offt.gov.uk/news-and-updates/press/2013/45-13#.UdFlvflaxxc

³⁸ Gibbons, D, Vaid, L and Gardiner, L (2011) Can consumer credit be affordable to households on low incomes? Friends Provident Foundation/Centre for Responsible Credit

³⁹ Department for Work and Pensions (2012) Annual Report on the Social Fund by the Secretary of State for Work and Pensions 2011–12, London: TSO

⁴⁰ Gibbons, D (2013) Local Welfare Provision, Low-Income Households, and Third Sector Financial Services Provision, London: Friends Provident Foundation

Figure 15 Use of informal lending is high among younger people in 2013⁴¹



⁴¹. Source: Ipsos/MORI survey, June 2013, base = 967

Problem debt

As is the case with data on 'borrowing', there are also issues in relation to data on 'problem debt'. Once again, definitions vary and the way data is collected over time also varies. This chapter provides information from a range of sources and draws out key trends. These indicate a rise in problem debt over recent years no doubt linked to the economic patterns mentioned above.

One source of 'problem debt' is a credit commitment which has become unmanageable, often due to losing a job or having a reduced income compared with when the credit commitment was taken on. According to the Wealth and Assets Survey (WAS)⁴², most of those with property loans in 2008–10 could manage repayments without difficulty but 13.6% of households with this form of loan considered it a heavy burden. This figure was, however, down from 15.2% in 2006–8, possibly reflecting low interest rates on mortgages. Turning to non-property credit, most people find these commitments manageable but nearly one in five, 18.0 per cent of individuals with this form of borrowing considered it a 'heavy burden' in 2008–10, up from 16.2% in 2006–8.

A key source of data on problem debt comes from a series of surveys by the Department for Trade and Industry/Business Innovation and Skills⁴³. The latest report in this series draws on data from the YouGov DebtTrack survey, a series of on-line surveys carried out between July 2008 and July 2009, with a sample size of around 3,000. This survey found that:

- Almost one-tenth (9 per cent) of households were in 'structural' arrears (that is, more than three months behind with any payments) in 2008–9.
- About one in 12 of all households (8 per cent) were spending more than 30 per cent of their income on repayment of unsecured loans.
- More than a quarter (28 per cent) of households breached one or more of the five over-indebtedness indicators⁴⁴ and 11 per cent breached two or more. Households with zero savings (31 per cent), lone-parent households (27 per cent) and households with an unemployed

adult (24 per cent) were most likely to have breached two or more of the indicators.

There are considerable difficulties in trying to compare indicators derived from a range of different surveys in order to determine trends over time. The DTI/BIS series of studies on over-indebtedness began with a detailed survey by MORI in 2002, which involved 1,647 face-to-face interviews with the head of household or their spouse/partner. A second survey was also carried out in 2004 by MORI (the Financial Services Survey, or MFS) which collected data from almost 10,000 individuals. Results for 2006 were based on unweighted ONS data collected for 7,443 households interviewed between July and December 2006. In particular, the results for the MFS in 2004 are not directly comparable with the other results available, as they are based on responses for individuals rather than households or family units.

Taking all this into account, however, there is some evidence of an increase between 2006 and 2008–9 in the proportion of households in 'structural arrears' (from 7 to 9 per cent of households) and in the proportion of households where repayments on unsecured borrowing are more than 25 per cent of income (from 3 to 8 per cent of households). The trends from 2002 to 2006 are more difficult to determine, although it looks likely that there was a decrease in the proportion of households with high levels of repayments.

It would be very useful to have more up-to-date, comparable figures on problem debt to monitor trends since 2008–9.

One indicator of problem debt is the rate of insolvency⁴⁵. Individual insolvency procedures include bankruptcy, debt relief orders (with effect from 6 April 2009) and individual voluntary arrangements:

- **Bankruptcy:** a form of debt relief available for anyone who is unable to pay the debts they owe. Any assets owned will vest in a trustee in bankruptcy who will sell them and distribute the

⁴² www.ons.gov.uk/ons/rel/was/wealth-in-great-britain-wave-2/the-burden-of-property-debt-in-great-britain/sty-household-debt-for-theme-page.html

⁴³ See latest survey in BIS (2010) Over-indebtedness in Britain: second follow-up report, www.bis.gov.uk/assets/BISCore/consumer-issues/docs/10-830-over-indebtedness-second-report.pdf

⁴⁴ The five indicators were as follows: Arrears Indicator – Individuals/Households in arrears on a credit commitment and/or a domestic bill for more than 3 months; Burden Indicators – Those spending more than 25% of their gross monthly income on repayments of unsecured debt – Those spending more than 50% of gross monthly income on repayments of all debt (unsecured and secured) – Those saying that their commitments are a 'heavy burden'. Credit Commitments Indicator – Those with four or more separate credit commitments.

⁴⁵ See the Insolvency Service website: www.bis.gov.uk/insolvency

proceeds to creditors in accordance with the order laid down by statute.

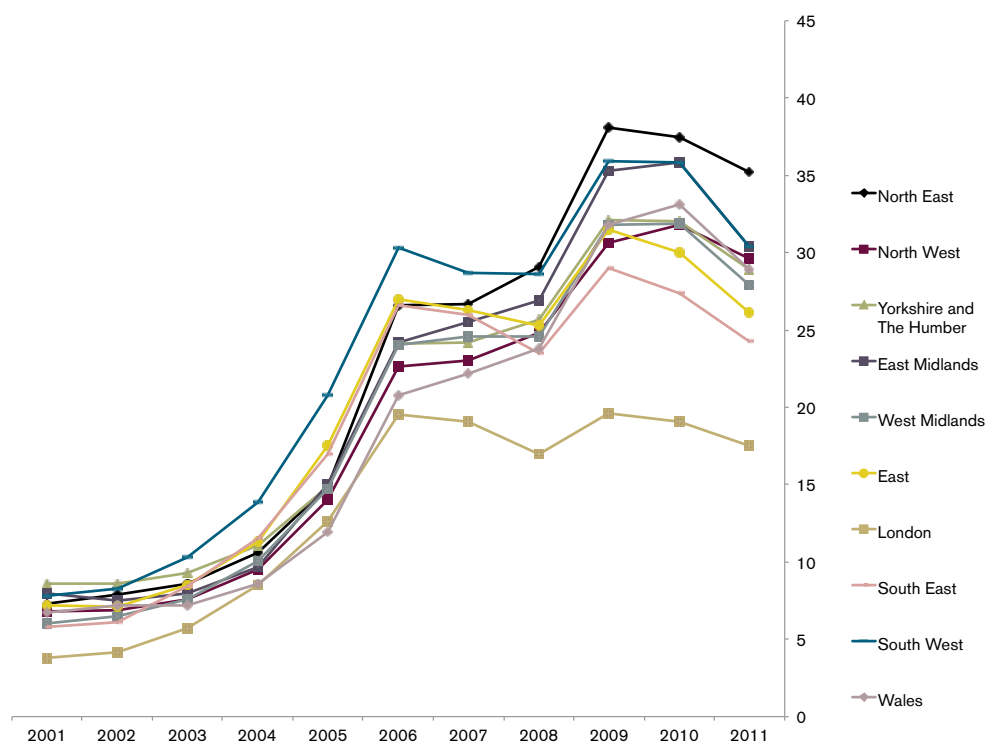
- Debt relief order: a form of debt relief available to those who owe £15,000 or less and have little by way of assets or income. There is no distribution to creditors, and discharge from debts takes place 12 months after the DRO is granted.
- Individual Voluntary Arrangements – a voluntary means of repaying creditors some or all of what they are owed. Once approved by the majority of creditors, the arrangement is binding on all. Such arrangements are supervised by a licensed Insolvency Practitioner.

According to the YouGov poll for BIS⁴⁶, in 2008–9, around 7 per cent of households had entered into one of the statutory or informal actions on debt (e.g. bankruptcy, IVA, DMP). Bankruptcies and IVAs accounted for a small proportion (1 per cent of households for each), while around 5 per cent of households were paying debts through a Debt Management Plan.

Data from the Insolvency Service⁴⁷ shows that:

- In 2011 the North East was the region with the highest total individual insolvency rate at 35.2 total individual insolvencies per 10,000 adults, twice that of London which has the lowest individual insolvency rate at 17.5 total individual insolvencies per 10,000 adults (see figure 15).
- Total individual insolvency rates rose across the English regions and Wales between 2001 and 2011, increasing five-fold in the North East, where total individual insolvencies per 10,000 adults rose from 7.3 to 35.2.
- Total individual insolvency rates generally peaked in 2009, while the number of individual insolvencies peaked in 2010.
- Total individual insolvency rates began to rise dramatically from 2004, following the implementation of the Enterprise Act 2002 and then again in 2008, coinciding with the start of the recession.

Figure 16: Total individual insolvency rates are the number of individual insolvencies per 10,000 adults⁴⁸



⁴⁶ See latest survey in BIS (2010) Over-indebtedness in Britain: second follow-up report, www.bis.gov.uk/assets/BISCore/consumer-issues/docs/10-830-over-indebtedness-second-report.pdf

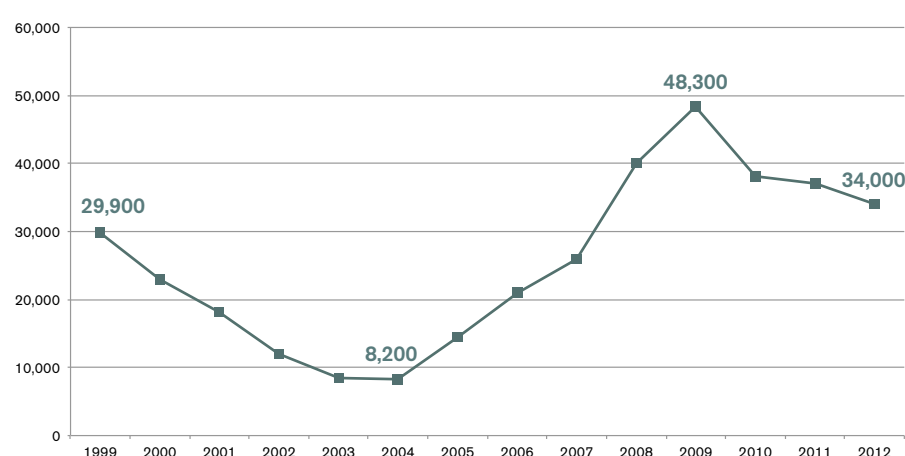
⁴⁷ Humby, P (2012) Individual Insolvencies including Bankruptcies, England and Wales, 2001–11

⁴⁸ Humby, P (2012) Individual Insolvencies including Bankruptcies, England and Wales, 2001–11

Another, quite extreme, indicator of problem debt is the number of properties taken into possession over time. As figure 17 shows, this increased markedly from

less than 10,000 in 2003 to a peak just under 50,000 in 2009. But numbers have subsequently fallen to 34,000 in 2012.

Figure 17: Properties taken into possession in England and Wales, 1999–2013⁴⁹



We see a different trend with evictions from rented properties (technically referred to as landlord possession)⁵⁰. Claims leading to repossession have decreased since 2003, reaching their lowest level around 2010, but have increased since then to around 10,000 in 2013. The upward trend in recent years coincides with an increase in the number of renters.

The likelihood of a tenant being reposessed since 2010 has been increasing for two reasons: because possession claims have risen and because the proportion of those claims that lead to repossession has risen slightly.

⁴⁹ Source: HM Courts and Tribunals Service CaseMan, Possession Claim OnLine (PCOL) and Council of Mortgage Lenders (CML)

⁵⁰ Ministry of Justice (2013) Mortgage and landlord possession statistics quarterly, January to March 2013, Ministry of Justice Statistics bulletin

When people are experiencing problem debt, they have an urgent need for free-to-client budgeting and debt advice services. According to the YouGov poll for BIS⁵¹ some 14% of respondents who had difficulties keeping up with bills and payments had sought professional debt advice in the preceding six months. Two-fifths (40%) of those who were behind with bills or credit payments had contacted their creditors about their financial difficulties. Government

funding for money and, in particular, debt advice has been under threat since 2010. The Money Advice Service provides mainly online advice and other third sector agencies, eg, Citizens Advice, Money Advice Trust, housing associations, credit unions etc continue to provide face-to-face advice but recent cuts (not least the end of funding for civil legal aid in relation to debt) will mean that fewer people receive the support they sometimes desperately need.

⁵¹ See latest survey in BIS (2010) Over-indebtedness in Britain: second follow-up report, www.bis.gov.uk/assets/BISCore/consumer-issues/docs/10-830-over-indebtedness-second-report.pdf



Home contents insurance

When budgets are tight, as they have increasingly become in the last few years, home contents insurance may seem like an expensive luxury. In particular, people on the lowest incomes may have relatively few possessions to insure and may find that the products available are designed for those with more. According to the Living Costs and Food Survey⁵², half of the households in the bottom half of the income distribution lacked home contents insurance in 2009, compared with one in five for households on average incomes. But households with no home contents insurance were more than three times as likely to be burgled in 2008–9 as those with insurance⁵³ and even if they have possessions of relatively little value they may have least ability to replace them, given low levels of saving.

There have therefore been a number of attempts to increase the proportion of households covered by home contents insurance, not least by investigating ways of involving the third sector⁵⁴ and making the products more appropriate to low-income households in terms of the minimum amount that needs to be covered. But there appears to have been little change here. According to the Family Expenditures Survey and Living Costs and Food Survey, the proportion of those in the poorest quintile who had home contents insurance increased from 52 per cent to 56 per cent from 1999–2000 to 2009–10 but more recent figures from the Family Resources Survey suggest an overall decrease in the proportion of working adults with home contents insurance between 2008–9 to 2010–11. We will return to this issue next year with more detailed analysis.

⁵² See www.poverty.org.uk/74/index.shtml

⁵³ www.poverty.org.uk/74/index.shtml

⁵⁴ Dayson, K, Vik, P and Ward, A (2009) Developing models for delivering insurance through CDFIs – opportunities and risks, Community Finance Solutions

Conclusions

This is the first of a series of five annual reports on financial inclusion. We begin at a time of austerity, when incomes have been falling or stagnating, and the costs of some basic goods (such as fuel and food) have had significant effects on lower income households. The political response to the recession has been to cut the budget deficit in ways which will hit the poorest the hardest in the next few years.

Against this background it is unsurprising that more people are concerned about their living standards, and finding it difficult to manage. We have recorded details of how people are having to cut back their consumption in order to make ends meet. There is also evidence that repossessions have increased (though not to the extent of past recessions), and more tenants have faced actions by landlords to regain their properties. However, as others have found, given the sheer scale of the drop in economic output the direct effects on unemployment have, so far, been less than might have been expected. Whilst lower wages might be a key effect of the financial squeeze, this may also be associated with firms managing to hold on to more workers than in past downturns. Even so, young people looking for a first job seem to be badly hit, albeit with tentative signs that things may be improving.

Most of the relevant datasets in this field, however, only provide data up to 2010–11 at the very latest so the effect of the recession may not yet be shown in the figures and the effects of the most recent cuts in government spending will start to be felt even more keenly from 2013 onwards, mostly after the point at which we had data to write this report. The government is reducing the level of Housing Benefit payable to those social tenants (of working age) with more rooms than their family size would deem to require (ending the spare room subsidy, or introducing a bedroom tax, depending on who is talking). The rent that may be supported in the private sector is also reducing, meaning that such tenants may only receive support for the bottom 30% of housing, rather than the bottom half. There are myriad changes to particular benefits, and particularly disability benefits. So far, older people have largely been excluded from these reforms – including the introduction of Universal Credit, which may (in time) lead to a radical simplification of the support available. Most of these changes are for the future, or being introduced gradually from 2012 or 2013 onwards. So there

are reasons to be pessimistic about our first main topic, of living standards.

Against this, we might also record that there are fewer people unbanked, and the numbers seem to continue to decline despite having already reached quite low levels. However, there are still major issues about access to appropriate transactional accounts. The report from the Parliamentary Commission on Banking Standards in June 2013⁵⁵ raised this issue in some detail arguing that the major banks must come to an agreement on minimum standards for basic bank accounts and that if they did not do this within 12 months the government should introduce a new statutory duty. We will monitor this and report back next year.

The picture in relation to savings is that there is great inequality in levels of saving. Most people have very little money saved and therefore no cushion to meet unexpected expenses. A few have considerable savings, and for some of these, the amount they have has increased a little. Given the lack of savings, many people fall back on borrowing in times of need. And those on the lowest incomes are more likely to turn to the most expensive credit.

Overall, relatively few people use the new kinds of financial products that have raised concerns about very high levels of charges (according to APR calculations). It is therefore hard to identify groups using payday lenders and home-collected credit in the standard surveys but these forms of lending are much more commonly used among those on lower incomes, and it would be helpful to have more survey research to capture this information – perhaps also collecting data on practices such as selling off goods (including gold) and borrowing in informal ways from family members. Use of payday lenders, in particular, may not be very widespread, but there are nevertheless major concerns about how they operate and in June 2013, the OFT referred the industry to the Competition Commission which will now carry out a year-long review. Once again, we will report on the this review in next year's report.

There are also difficulties in finding reliable and comparable data on borrowing and problem debt. In particular, a new survey of 'over-indebtedness' would be extremely helpful to measure the most recent trends in problem debt. Existing data suggests that

problem debt is increasing, particularly in relation to unsecured credit commitments and rent payments. Some people with mortgages are generally benefitting from low interest rates but others are struggling and the changes to social security mentioned above may mean that problem debt and evictions from rental properties will increase still further next year.

This is the longest and deepest slump in a century and we are already seeing signs of a major impact on people's finances. The situation looks set to worsen still further in coming years unless the government takes action to better support those who are struggling to make ends meet.

⁵⁵. Report of the Parliamentary Commission on Banking Standards (2013) Changing Banking for Good, Volume 1, HL Paper 27-1, HC 175-1, London: The Stationery Office

Appendix

Data sources and research methods

This research, funded by the Friends Provident Foundation, has been carried out in three main stages: stakeholder engagement; secondary analysis of existing data sources; and a module of questions on an Ipsos/MORI omnibus survey.

Stakeholder engagement

The research began with discussions with key stakeholders about the approach the research might take. Stephen McKay led a workshop at the 2012 Centre for Responsible Credit conference and then the project team held an event in London in January 2013 to specifically consider the scope of the research (in particular, how wide or narrow a definition of financial inclusion we should use), the type of indicators we might monitor and the data sources we should consult. Stakeholders engaged included Brian Pomeroy, former Chair of the Financial Inclusion Taskforce alongside representatives from: Fair Banking Foundation; Centre for Responsible Credit; Financial Services Authority; DWP Finance Change, Credit Union Expansion project; Which?; ABCUL; Resolution Foundation; IPPR; and Transact.

Secondary analysis of existing data sources

A number of data sources were analysed as part of this research. The key sources were:

■ Wealth and Assets Survey (WAS)

This is a relatively new survey of people's assets and general wealth, including pensions, financial assets, property and savings. Two waves have been produced, covering 2006–08 and 2008–10. The same people were interviewed in each wave⁵⁶. These data are Crown Copyright.

■ Family Resources Survey (FRS)

This is a long-running annual cross-sectional survey of over 24,000 households. It is used by government and others to describe the income distribution and numbers of households below various income lines. It also collects details about accounts held⁵⁷. These data are Crown Copyright.

■ British Household Panel Survey, and Understanding Society (BHPS and US)

The BHPS was a panel survey of individuals living in around 5500 households in 1991. Where possible those individuals have been interviewed on an annual basis since then⁵⁸. This source is now largely subsumed into the new Understanding Society survey. A large new sample of over 40,000 households (plus remaining BHPS respondents) is now interviewed each year⁵⁹.

■ Labour Force Survey (LFS)

Each quarter around 120,000 individuals are included in the LFS. The emphasis is on collecting labour market data, including those who are unemployed⁶⁰. These data are Crown Copyright.

MORI omnibus survey 2013

The final part of the project involved placing questions on an omnibus survey to collect up-to-date information not available from other sources. We developed a range of questions which were then refined in consultation with researchers at Ipsos/MORI. The survey was then carried out between 7th and 16th June 2013. A total of 967 adults aged 18+ in Great Britain were interviewed as part of the face-to-face omnibus. The data for this module was collected through self-completion.

⁵⁶ Office for National Statistics. Social Survey Division, Wealth and Assets Survey, Waves 1-2, 2006–2010 [computer file]. Colchester, Essex: UK Data Archive [distributor], March 2013. SN: 7215, <http://dx.doi.org/10.5255/UKDA-SN-7215-1>
Department for Work and Pensions, National Centre for Social Research and Office for National Statistics. Social and Vital Statistics Division, Family Resources Survey, 2010–2011 [computer file]. Colchester, Essex: UK Data Archive [distributor], October 2012. SN: 7085, <http://dx.doi.org/10.5255/UKDA-SN-7085-1>

⁵⁷ Department for Work and Pensions, National Centre for Social Research and Office for National Statistics. Social and Vital Statistics Division, Family Resources Survey, 2010–2011 [computer file]. Colchester, Essex: UK Data Archive [distributor], October 2012. SN: 7085, <http://dx.doi.org/10.5255/UKDA-SN-7085-1>

⁵⁸ University of Essex. Institute for Social and Economic Research, British Household Panel Survey: Waves 1-18, 1991–2009 [computer file]. 7th Edition. Colchester, Essex: UK Data Archive [distributor], July 2010. SN: 5151.

⁵⁹ University of Essex. Institute for Social and Economic Research and National Centre for Social Research, Understanding Society: Waves 1-2, 2009–2011 [computer file]. 4th Edition. Colchester, Essex: UK Data Archive [distributor], January 2013. SN: 6614, <http://dx.doi.org/10.5255/UKDA-SN-6614-4>

⁶⁰ Office for National Statistics. Social Survey Division and Northern Ireland Statistics and Research Agency. Central Survey Unit, Quarterly Labour Force Survey, July – September, 2012 [computer file]. Colchester, Essex: UK Data Archive [distributor], November 2012. SN: 7174, <http://dx.doi.org/10.5255/UKDA-SN-7174-1>

This is the first of a series of five annual reports on financial inclusion. We begin at a time of austerity, when incomes have been falling or stagnating, and the costs of some basic goods (such as fuel and food) have had significant effects on lower income households. Key findings include:

- The majority of the population were cutting back on their spending in 2013, some on heating and basic food items
- The majority of those in the bottom thirty per cent of the income distribution were finding it difficult to manage, financially, or were just about getting by in 2010–11
- Overall, more people in 2010–11 had access to bank accounts than ever before but concern about access to, and the suitability of, those accounts has led the Parliamentary Commission on Banking Standards to call for the banks to improve their practices

- Non-mortgage borrowing (ie, unsecured credit) increased by 10 per cent from 2006–8 to 2008–10 and the proportion of people who found these commitments 'a heavy burden' also increased - to nearly one in five borrowers in 2008–10
- The proportion of households where repayments on unsecured borrowing were more than 25 per cent of income increased from 3 to 8 per cent between 2006 and 2008/9

This is the longest and deepest slump in a century and we are already seeing signs of a major impact on people's finances. The situation looks set to worsen still further in coming years unless the government takes action to better support those who are struggling to make ends meet.

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